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No. 08-121

Supreme Court, U.S.
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IN THE

Supreme Court of the United States

SAMSUNG ELECTRONICS CO., LTD.,

Petitioner,

v.

RAMBUS INC.,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

REPLY BRIEF FOR PETITIONER

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REPLY BRIEF FOR PETITIONER

Respondent attempts to defend the Federal Circuit's remarkable holding that a party facing court-imposed sanctions, like respondent, can escape those sanctions by offering to pay its adversary's attorney's fees. As demonstrated in the Petition and below, such a rule not only conflicts with precedents of this Court and other courts of appeals, but prevents judges in patent cases from policing abuse of the judicial process by litigants who deliberately engage in misconduct. Review is warranted to clarify that a party's willingness to pay a monetary sanction does not strip the district court of jurisdiction to deter and punish misconduct by imposing a sanction of its own.[1]

1. The first question presented is "[w]hether a party may unilaterally strip the district court of jurisdiction to sanction misconduct by offering to pay the attorney's fees sought by the opposing party." (Pet. i.) The Federal Circuit incorrectly held that a party may do so because it failed to appreciate that 35 U.S.C. § 285, like other sanctions provisions, aims not only to compensate aggrieved parties but also to punish and deter misconduct. (Pet. 14-16.) It also failed to recognize that, at the time respondent tendered its attorney's fees offer, the district court was contemplating a sanction under its inherent powers, and the district court's authority to impose a

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[1] Pursuant to Rule 29.6, petitioner states that the corporate disclosure statement in its petition (Pet. ii) remains current.

sanction was not confined to the sanction petitioner requested. In holding that a party may escape judicial sanction altogether by paying the fees sought by its adversary, the Federal Circuit has created a circuit conflict that merits further review.

The Federal Circuit did not dispute the detailed findings of misconduct made by the district court, which concluded that respondent "engaged in pervasive document destruction" while "it anticipated litigation" and "while it was actually engaged in litigation." (Pet. App. 185a.)[2] Observing

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[2] Respondent dismisses an adverse determination by an administrative law judge ("ALJ") as a "preliminary ruling without a full record" (Opp. 2 n.2), and instead focuses on a decision by another ALJ that it characterizes as a "non-spoliation" ruling (*id.*). That ALJ recognized that the Federal Trade Commission had "significant and ongoing concerns about [Rambus] directing its employees to conduct a wholesale destruction of documents" and deemed respondent's document destruction "troublesome," but found no prejudice because, unlike here, no relevant documents were destroyed. *In re Rambus, Inc., Initial Decision*, 2004 WL 390647, at 243-44 (F.T.C. Feb. 23, 2004), *available at* http://ftc.gov/os/adjpro/d9302/040223initialdecision.pdf (quotation marks omitted).

As for another district court's findings in another case, the court found only that "[t]he evidence here does not show that Rambus destroyed specific, material documents prejudicial to Hynix's ability to defend against Rambus's patent claims." *Hynix Semiconductor Inc. v. Rambus Inc.*, No. C-00-20905, 2006 WL 565893, at *28 (N.D. Cal. Jan. 5, 2006). Those findings, which remain subject to appeal, say nothing about whether the Federal Circuit improperly limited the power of district courts to sanction litigants.

Respondent did not challenge below the merits of the district court's spoliation findings. Respondent disagrees, (...continued)

that "an imposition of sanctions, whether under § 285 or the court's inherent powers, is critically important to the ability of district courts to punish misconduct by the parties or counsel" (*id.* at 72a), the district court ruled that respondent's misconduct rendered the case "exceptional" within the meaning of Section 285. (*Id.* at 122-31a, 136a-207a.)

The Federal Circuit held that respondent's tender of attorney's fees, unaccompanied by any admission of wrongdoing, mooted the lawsuit and barred any attempt by the district court to address the misconduct under Section 285 or its inherent power. (*Id.* at 11a, 14a.) By so holding, the Federal Circuit eviscerated the punitive purpose of Section 285 and inherent powers sanctions and the independent role of the district court in ensuring the proper administration of justice.

Respondent defends the Federal Circuit's decision on the ground that Section 285 authorizes only a fees sanction, which it asserts can be mooted by a party's offer to pay the fee. (Opp. 12-14.) Respondent overlooks, as did the Federal Circuit, the fact that Section 285 is—as the Federal Circuit previously recognized—a "tool[] to punish egregious

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directing the Court to what it describes as a "clearly erroneous" challenge. (Op. at 7 n.6 (citing Resp. C.A. Br. 49-52).) That citation refers to a challenge to the district court's alleged use of judicial notice (Resp. C.A. Br. 49-52), which respondent acknowledged was subject to review under "an abuse of discretion standard" (*id.* at 15).

misconduct." *Jurgens v. CBK, Ltd.*, 80 F.3d 1566, 1570 n.3 (Fed. Cir. 1996). Accordingly, Section 285 is akin to other fee sanctions that "transcend[] a court's equitable power concerning relations between the parties . . . [and] serv[e] the dual purpose of vindicating judicial authority" and "making the prevailing party whole." *Chambers v. NASCO, Inc.*, 501 U.S. 32, 46 (1991) (quotation marks and alterations omitted). Thus, while an offer to pay attorney's fees under Section 285 may be sufficient to satisfy the compensatory purpose of the provision, it is insufficient to satisfy its punitive purpose, which can be satisfied only by giving the district court an opportunity to determine whether a party engaged in misconduct sufficient to justify the exceptional case sanction of attorney's fees authorized by Section 285.

The Federal Circuit's holding that respondent's offer to pay petitioner's attorney's fees mooted the sanctions proceedings conflicts with the Eighth Circuit's position that "[t]he purpose of sanctions goes beyond reimbursing parties for expenses incurred in responding to unjustified or vexatious claims." *Perkins v. GM Corp.*, 965 F.2d 597, 599 (8th Cir.), *cert. denied*, 506 U.S. 1020 (1992). Respondent attempts (Opp. 19) to distinguish *Perkins* on the ground that the sanctions there were "non-fees" sanctions based on "invoked" grants of authority "other than Section 285." But *Perkins'* holding is categorical: parties "cannot unilaterally bargain away the court's discretion in imposing sanctions and the public's interest in ensuring compliance with the rules of procedure." 965 F.2d at 600; *see also Fleming & Assocs. v. Newby & Tittle*, 529 F.3d 631, 638-40 (5th Cir. 2008) (agreeing with *Perkins*).

Moreover, one of the provisions on which the sanctions order in *Perkins* was based, 28 U.S.C. § 1927, parallels Section 285 in authorizing monetary sanctions, and the party aggrieved by the misconduct sought attorney's fees as a sanction. 965 F.2d at 598.

Respondent's further assertion that *Perkins* is "different" because the sanctions "were actually imposed . . . *before* the case was settled" (Opp. 20) is of no significance. As this Court explained in *Willy v. Coastal Corp.*, 503 U.S. 131, 139 (1992), on which *Perkins* relied: "The interest in having rules of procedure obeyed" does "not disappear upon a subsequent determination that the court was without subject-matter jurisdiction" when it imposed a sanction.[3]

Respondent's effort to distinguish *Perkins* and *Fleming* based on the specific sanctions provisions at issue in those cases also founders on the mistaken premise that the district court's authority to impose sanctions was limited by the specific sanction petitioner "invoked." Respondent repeatedly emphasizes (Opp. 11, 15, 23) that petitioner sought only attorney's fees under either Section 285 or the court's inherent authority. It is well established, however, that courts may impose sanctions *sua sponte*. *See Chambers*, 501 U.S. at 42 n.8, 49.

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[3] Respondent's attempt to distinguish *Fleming* on this ground fails for the same reason.

Respondent cites no authority for the proposition that a court's ability to police misconduct is circumscribed by the particular authority "invoked" by the parties. Respondent's view that sanctions are party-driven reflects the same error the Federal Circuit made in holding that respondent's attorney's fees offer mooted the case. (Pet. App. 11a.) The Federal Circuit's holding that the form of sanction asked for *by a party* sets the outer bound of a *court's* sanctions authority directly conflicts with *Perkins*, which declined to find mootness despite the non-sanctioned party's agreement to withdraw its motion for sanctions. As *Perkins* explained, "[a]lthough [defendant] moved the court for sanctions, it was the district court that imposed them." 965 F.2d at 600. The court further observed that the imposition of sanctions is a prerogative of the district court that the parties "cannot unilaterally bargain away." *Id.*; *accord Fleming*, 529 F.3d at 640.

Respondent's emphasis on a "careful textual and other analysis" of Section 285 (Opp. 13 n.8, 13-14) to determine whether it permits a non-monetary sanction is irrelevant. Although the Federal Circuit disagreed with the district court's conclusion (*see* Pet. App. 72a-73a, 211a-17a) that Section 285 permitted a non-fees sanction, it does not follow that the district court lacked jurisdiction to address respondent's misconduct. To the contrary, at the time respondent offered to pay petitioner's attorney's fees—the point at which the Federal Circuit held the case became moot—the district court recognized that it had an array of sanctions options, including "sanctions entered under the inherent judicial power, whether attorney's fees *or otherwise*" (*id.* at 72a

(emphasis added)).[4] Thus, even those circuits that would agree with respondent that an attorney's fee sanction is purely compensatory and thus can be mooted, *see Clark Equip. Co. v. Lift Parts Mfg. Co.*, 972 F.2d 817, 819 (7th Cir. 1992); *Kleiner v. First Nat'l Bank of Atlanta*, 751 F.2d 1193, 1199-1200 (11th Cir. 1985), conflict with the Federal Circuit's mootness holding because they held that non-monetary sanctions and punitive fines—both of which are available under a court's inherent powers—"cannot be settled by the parties." *Clark*, 972 F.2d at 819; *see Kleiner*, 751 F.2d at 1200.

Accordingly, this Court need not address whether Section 285 authorizes a non-monetary sanction to decide the first question presented. Instead, it may simply decide whether respondent's offer to pay petitioner's attorney's fees stripped the district court of jurisdiction to impose the sanctions it contemplated imposing (assuming that a non-monetary sanction under Section 285 was unavailable) at the time respondent tendered its offer. If the Court concludes that the district court retained jurisdiction to sanction respondent, it should follow *Roadway Express, Inc. v. Piper*, 447 U.S. 752, 764-68 (1980), and remand to allow the

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[4] Respondent is thus incorrect when it states that "the only two sources of authority for *any* sanction [here] were inapplicable to support any non-fees sanction judgment." (Opp. 13.) Regardless of the Federal Circuit's conclusion with respect to Section 285, it is well-established that a court may impose non-fees sanctions pursuant to its inherent authority. (*See* Pet. 22.)

district court to fashion an appropriate sanction under its inherent powers.

2. The Federal Circuit incorrectly held that "the district court's power to use its inherent power . . . cannot exceed its jurisdiction over the case itself." (Pet. App. 14a.) For that reason, the Federal Circuit concluded, "[o]nce the underlying attorneys fees were offered, the case was moot and the trial court lacked jurisdiction" to exercise its inherent power. (*Id.*) That categorical holding conflicts with precedents of this Court and other courts of appeals and undermines the authority of federal courts to protect the integrity of judicial proceedings.

Respondent first contends (Opp. 22) that the Federal Circuit "recognized that inherent power is subject to substantive standards." But the "substantive standard[]" to which respondent refers—the *Chambers* rule that a court should not resort to inherent powers if a statutory or rule-based sanction is adequate to address the misconduct—is the very standard that the district court *correctly* applied. Indeed, the district court, after discussing *Chambers*, made clear that it would refrain from addressing whether an inherent powers sanction was warranted because an exceptional case finding was an adequate sanction: "Given that the [c]ourt found this case to be exceptional, it cannot be said that § 285 was inadequate to reach [respondent's] spoliation." (Pet. App. 216a.) By so holding, the district court preserved its ability to impose an

inherent power sanction in the event of reversal under Section 285.[5]

According to the Federal Circuit, however, once a party offers to pay the sanction sought by the opposing party under a statute or rule, the district court is *disabled* from invoking its inherent power, regardless of whether that payment is adequate to address the misconduct, because there is no longer a dispute between the parties over which the court may exercise jurisdiction. In so holding, the Federal Circuit turned *Chambers* on its head.

Respondent next attempts to rewrite the Federal Circuit's holding, stating that "[t]he Federal Circuit did not question the existence of inherent power, if otherwise appropriate, to issue a still-disputed sanction judgment when such a judgment is at

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[5] Contrary to respondent's suggestion (Opp. 22), petitioner did not need to cross-appeal. *See, e.g., Washington v. Yakima Indian Nation*, 439 U.S. 463, 476 n.20 (1979) ("[T]he prevailing party . . . [i]s of course free to defend its judgment on any ground properly raised below whether or not that ground was relied upon, rejected, or even considered by the District Court[.]"). Given the district court's specific finding that the case was "exceptional" under Section 285, there was nothing for petitioner to appeal except the denial of *fees*, which it chose not to do. *Cf. Greenlaw v. United States*, 128 S. Ct. 2559, 2564 (2008) (cross-appeal must be taken to alter the *judgment* in appellee's favor). The proper disposition in this circumstance is not an alteration of the judgment in petitioner's favor (*see* Opp. 24 n.14), but a remand for a determination of whether an inherent-powers sanction is warranted given the absence of a statutory or rules-based alternative. *See* Pet. 27-28 (discussing *Roadway Express*, 447 U.S. at 764-68).

issue." (Opp. 23.) The Federal Circuit's inherent powers holding was categorical, despite respondent's efforts to cabin it: "the district court's power to use its inherent power, which it declined to do, cannot exceed its jurisdiction over the case itself. Once the underlying attorney fees were offered, the case was moot and the trial court lacked jurisdiction." (Pet. App. 14a.) This sweeping holding—containing none of the qualifiers respondent ascribes to it—conflicts with this Court's rule that sanctions proceedings are collateral to the underlying merits and may continue "after an action is no longer pending," *Cooter & Gell v. Hartmarx Corp.*, 496 U.S. 384, 395 (1990), or even if subject matter jurisdiction never existed, *Willy*, 503 U.S. at 137-39.

The Federal Circuit's inherent authority holding also has created a conflict with the Second Circuit, which has expressly held that a court possesses inherent authority to punish misconduct even absent subject-matter jurisdiction. *See Schlaifer Nance & Co. v. Estate of Warhol*, 194 F.3d 323, 333 (2d Cir. 1999); *see also Red Carpet Studios Div. of Source Advantage, Ltd. v. Sater*, 465 F.3d 642, 645 (6th Cir. 2006) (concluding that there is "no material difference between the collateral character of sanctions under [Federal] Rule [of Civil Procedure] 11 and sanctions awarded under 28 U.S.C. § 1927 or pursuant to a court's inherent authority").

Respondent seeks to distinguish these cases on the ground that they involved "fully preserved and vigorously disputed claims to fee awards under inherent authority." (Opp. 24.) Petitioner has preserved its claim that an inherent-powers sanction

was appropriate. (*See* Pet. C.A. Br. 40-41.) And the exercise of inherent power to sanction respondent is no less disputed here than it was in *Schlaifer* or *Red Carpet Studios*.

3. Respondent argues that its appellate standing argument presents a reason for denying review. (Opp. 15-17 & n.9.) The Federal Circuit did not decide respondent's standing argument in light of its holding that the district court lacked the power to sanction respondent. (*See* Pet. App. 8a.) Because there is no required "sequencing of jurisdictional issues," *Ruhrgas AG v. Marathon Oil Co.*, 526 U.S. 574, 584-85 (1999), the Court may decide the threshold mootness question without passing on the appellate standing issue, which the Federal Circuit can address on remand if necessary.

In any event, "courts are in near complete agreement that an order rising to the level of a public reprimand is a sanction" and may be appealed. *Bowers v. NCAA*, 475 F.3d 524, 543 (3d Cir. 2007); *see, e.g.*, *Perkins*, 965 F.2d at 599-600; *Unanue-Casal v. Unanue-Casal*, 898 F.2d 839, 842-43 (1st Cir. 1990). "Only the Seventh Circuit has clearly held that a public reprimand not accompanied by a monetary sanction is non-appealable." *Bowers*, 475 F.3d at 543 (citing *Clark*, 972 F.2d at 820). Even *In re Williams*, 156 F.3d 86 (1st Cir. 1998), the one sanctions case respondent relies upon, recognizes that "[w]ords alone may suffice [as a sanction] if they are expressly identified as a reprimand," *id.* at 92, as was the case here (*see, e.g.*, Pet. App. 130a ("[i]t is difficult to imagine conduct . . . more worthy of sanction"), 216a

("[respondent's] litigation misconduct was not left unremedied")). There is a "more substantial disagreement" on whether a non-monetary sanction must be set forth in a separate order to be appealable. *Bowers*, 475 F.3d at 543 (collecting cases). But this disagreement on an issue closely related to the questions presented is only further reason to grant the writ.[6]

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[6] Additionally, the potential issue-preclusive effect of the district court's findings may provide appellate standing, *see, e.g., Agripost, Inc. v. Miami-Dade County*, 195 F.3d 1225, 1230 & n.11 (11th Cir. 1999), although the courts of appeal disagree here too, *see, e.g., Warner/Elektra/Atl. Corp. v. County of DuPage*, 991 F.2d 1280, 1282-83 (7th Cir. 1993).

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted,

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